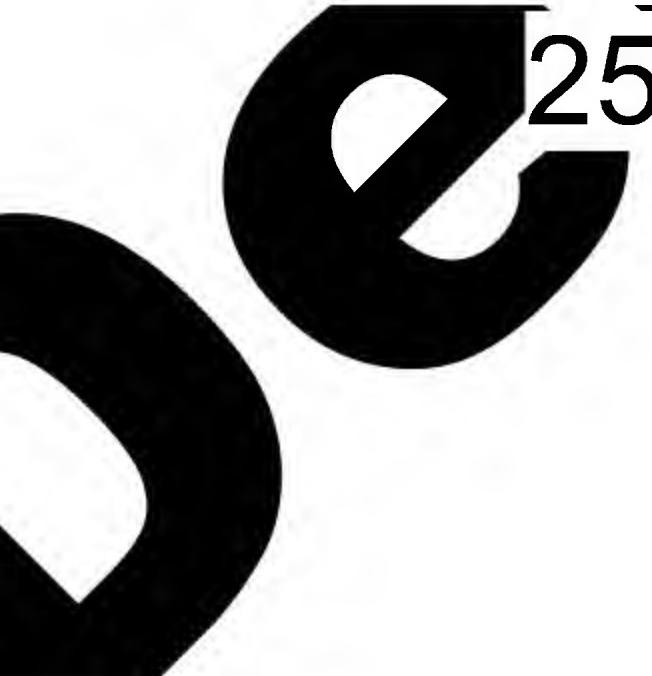


Sanitized Copy Approved for 1
Release 2010/03/18 : 
CIA-RDP85T00875R001000070

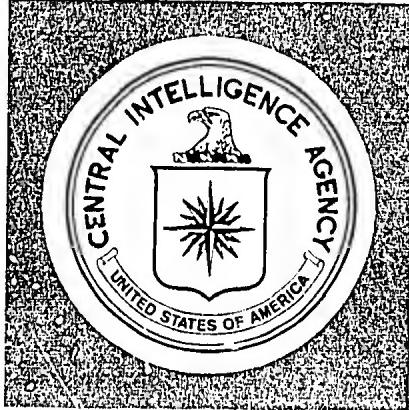
 25X1

 NAVY
Review
Completed

Sanitized Copy Approved for
Release 2010/03/18 :
CIA-RDP85T00875R001000070



Top Secret



Weekly Review

NAVY Review Completed

DIA review completed.

Top Secret

25X1

11 October 1974

25X1

Copy No 643

CONTENTS (*October 11, 1974*)

The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

1 Middle East: A Year Later

EUROPE

- 4 Italy: The Reluctant Front-Runner
- 5 Portugal: The Left Tightens its Grip
- 6 Cyprus: Political Delays
- 8 EC Reviews Farm Policy
- 10 East Germany: Silver Anniversary

25X1

MIDDLE EAST
AFRICA

- 11 Iran: Reaching Out
- 12 Ethiopia: Rifts in the Military
- 13 Kenya: Parliamentary Elections
- 14 Soviet Indian Ocean Force Change
- 14 Iraq: Offensive Bogs Down

EAST ASIA
PACIFIC

- 15 South Vietnam: Some Changes—Maybe
- 15 Cambodia: Sihanouk in the Shadows
- 16 Thailand: New Government
- 17 Japan: Nuclear Allegations
- 18 China: Industrial Shortcomings

25X1

WESTERN
HEMISPHERE

- 20 Argentina: Appealing for Unity
- 21 Ecuador: Resources Minister Replaced
- 22 Uruguay: New Leadership
- 23 Peru: The Seventh Year Begins
- 24 Chile: Extremists Lose Leader

25X1

NAVY Review Completed



Egyptian tanks in victory parade

Middle East: A Year Later

Egyptian and Syrian leaders celebrated the first anniversary of the October war this week by extolling their military preparedness, calling for additional territorial concessions by the Israelis, and admonishing all Arabs to close ranks and get on with negotiations. Beneath the rhetoric, however, there were signs of apprehension about the future of peace negotiations and domestic economic conditions. Israelis, spurred by Prime Minister Rabin, have been hotly debating the territorial concession issue.

In Egypt, the celebration of the military "victory" last year was tempered somewhat by a candid acknowledgement in the press that the present situation of "no victory - no defeat" is basically unacceptable. In discussing Egypt's present military picture at an armed forces review on October 6, Minister of War Ismail Ali did not dwell on the possibility of renewing hostilities. He did, however, say that the Sinai must be restored to Egypt "by peace or by war."

President Sadat, in an interview with a Beirut newspaper on October 7, called for a closing

of Arab ranks and subsequent contacts with the US and the USSR before returning to the Geneva talks. Egyptian efforts toward this end, he said, have included talks with King Husayn in Alexandria in July and the tripartite meeting of Egyptian, Syrian, and Palestinian officials in Cairo last month. At the time of the interview, Sadat was still advocating an early conference of Egypt, Syria, Jordan, and the Palestine Liberation Organization to forge a compromise on the negotiating role to be played by the PLO and Jordan so that the Arabs "do not go to Geneva and find time bombs under the table."

Prime Minister Hijazi praised last year's military achievement before a special session of the People's Assembly on October 6. He devoted most of his address to a discussion of Egypt's domestic economic problems, however, in an obvious attempt to dissipate growing public and official frustration with the government. Hijazi said that he has given top priority to lowering the cost of living and increasing the availability of basic commodities. The commodity shortages could eventually further complicate peace negotiations by drawing attention to what Egyptians

NAVY Review Completed

consider unreasonable delays in the implementation of the promised \$250 million in economic assistance from the US. The Egyptians tend to regard this aid, which they unrealistically imagine will be a panacea for their economic problems, as a reward for Cairo's decision to seek a negotiated settlement.

In Syria, deputy Baath Party leader Yasin made the keynote speech to a rally celebrating the anniversary of the war. He stressed that Syria had continued to fight alone after Egypt accepted a cease-fire, and that the disengagement agreement should be considered only a step toward a complete Israeli withdrawal from all occupied territory. Yasin emphasized that the war had demonstrated the value of Arab unity, particularly through the use of the oil weapon.

Syrian leaders are not threatening a return to military action at this time, but—by continuing to re-equip and improve their armed forces with Soviet weapons—are clearly not foreclosing this option. The Syrians are, if anything, even more cautious than the Egyptians in their hopes that Israel will return occupied Arab territory through negotiations or come to grips with the Palestinian problem. Nevertheless, Damascus appears willing to give negotiations a chance to work.

Foreign Minister Khaddam's recent attempts to sow doubts about Syria's renewing the mandate of the UN observer force on the Golan Heights seem designed primarily to prod the US and Israel on negotiating. In all likelihood, President Asad would accept minimal progress—some movement in Jordanian-Israeli negotiations or the setting of a date for the resumption of the Geneva peace conference—as sufficient justification for renewing the mandate this fall.

In Israel, Prime Minister Rabin has been making a series of public statements advocating Israeli territorial concessions to the Arabs in return for their agreement to a "peace by stages." Rabin began the series in a US television interview, broadcast on October 1, in which he offered to trade some West Bank territory for a declaration of "non-belligerency" by Jordan. In

subsequent statements, he has at least implied that a similar staged approach could be used with Egypt and Syria.

This major break with Israel's pre-disengagement position—that territory would be surrendered only after the signing of a comprehensive peace treaty—has been the subject of almost daily comment, mostly critical, by Israeli media. The opposition Likud coalition forced the convening of a special parliamentary session on October 9 to air the issue, but full-scale debate was put off until next week. During Wednesday's brief session, Rabin stated only that "Israel is ready for territorial concessions as the price of peace," but not for a return to the June 1967 lines.

Rabin's tactics, if not his goals, have been widely questioned, although the usually outspoken hard liners within the Prime Minister's Labor Alignment, such as Shimon Peres and Moshe Dayan, have not yet raised their voices. They can be presumed to oppose a course that is clearly pointed to the kind of interim territorial settlement that Israeli leaders have traditionally shunned. It is generally seen as a surrender of security without a compensating Arab commitment to peace and recognition of Israel's legal existence. Rabin has scheduled a cabinet meeting on October 11 to review Israel's negotiating policy.

Right-wing and orthodox religious elements in both the Labor Alignment and the Likud bloc are committed to the goal of retaining all of biblical Israel—the entire West Bank. The so-called "youth wing" of the National Religious Party has similar goals. On October 9, would-be settlers affiliated with these groups evaded police and army road-blocks and camped in several areas of the West Bank in a deliberate campaign to dramatize their aims. The police moved in promptly to evict them. The attempt drew a stern statement from Rabin that absolutely no settlements not authorized by the government would be permitted in occupied areas.

25X1

25X1

Page Denied

ITALY: THE RELUCTANT FRONT-RUNNER

President Leone's consultations with political leaders showed Christian Democratic Party chief Amintore Fanfani to be the favorite to succeed Prime Minister Rumor, who resigned last week. Fanfani—Italy's most experienced and controversial politician—is playing hard to get, however, and, at his insistence, Leone gave an exploratory mandate to another Christian Democrat—Senate President Spagnolli—to take soundings among the four governing parties to determine whether there is a real chance of putting the center-left coalition back together.

Fanfani is suspicious of the consensus that has developed in his favor. Even left-wing Christian Democrats—who this summer tried to oust him from his party post—are encouraging him to take the job, saying that his recognized executive ability and decisiveness are needed at this crucial juncture.

Fafani knows that the parties are further apart than usual and probably believes that his enemies are setting him up for another failure. Fanfani has already suffered two setbacks this year; he led the losing side in the divorce referendum last spring, and the Christian Democrats were stung badly in a regional election in June.

If the Senate president reports that there is room for compromise among the former coalition partners, Fanfani will probably accept the task of forming a new government. He is also likely to insist that he be allowed to keep his post as Christian Democratic leader as the price for accepting such a politically risky assignment.

The four parties, meanwhile, have completed a round of meetings; their subsequent statements show that they are still poles apart. The Socialists did not budge from their demand for changes in the austerity program, while the Republicans and Social Democrats remain adamantly opposed to any revisions. The Christian Democrats, as usual,

are hedging their bets but are inclined to side with the Social Democrats and Republicans.

While the ruling parties continue their feud, the Communists are maintaining a low profile. They are concentrating their efforts on opposition to early elections and are insisting that any new government be more responsive to the demands of organized labor.

The Communists' emphasis on their support for labor probably results from the government's failure to mediate successfully a dispute this week between the unions and Fiat, the country's largest private employer.

Apart from the potential for labor unrest, there is concern that a protracted period of political uncertainty could have a more generalized adverse effect on the economy. It could lead to further capital outflows, worsening the still shaky balance of payments. Excluding gold holdings, Italy's foreign exchange resources are only sufficient for several months of heavy support of the lira. The central bank would have a difficult time obtaining additional loans with only a caretaker government behind it. Private credit has already largely dried up and official credit sources will be wary of granting loans as long as the composition and policies of the government are unknown. In these circumstances, Italy might have to let the lira depreciate sharply.

A lengthy government crisis would also deepen the slump expected in investment and employment through mid-1975. Private investors, already squeezed by tight credit, reduced profits, and a depressed securities market, would be tempted to cancel the few spending plans still on the books. With investment dropping off faster than expected earlier this year, the outlook for the economy could tip from stagnation to recession.

25X1

25X1

PORUGAL: THE LEFT TIGHTENS ITS GRIP

The left-leaning Armed Forces Movement appears to have strengthened its hold on the country this week by initiating important changes in the government apparatus.

The make-up of the third provisional government is almost identical to its predecessor, with two important exceptions. Prime Minister Goncalves, an important member of the movement, has assumed the defense portfolio. He is to be "assisted" by another member, Major Vitor Alves. The defense post had previously been manned by a Spinola supporter. Although President Costa Gomes remains armed forces chief of staff—the most important military position in Portugal—Goncalves and the movement are now in a good position to override him on military matters.

The Ministry of Information has been reduced to a lesser office, directly responsible to the prime minister. President Costa Gomes is concerned over Portugal's image abroad and has indicated that one of his first priorities would be to discipline the media and to put an end to their growing left-wing bias. This may be difficult, given the fact that the media now are controlled by Goncalves.

To further consolidate its power, the movement named two of its members to fill vacancies on the ruling seven-member Junta of National Salvation. In addition, legislation passed earlier this week by the Council of State made the movement's Coordinating Committee part of the armed forces General Staff. Two air force officers will also be selected for the junta; the Council of State is expected to meet next week to approve the appointments.

Of the three members of the committee in the cabinet, Portuguese observers on the center

and right consider only one—Major Melo Antunes—to be a Communist; Prime Minister Goncalves and Major Vitor Alves are described as leftists.

Although the left is clearly strengthening its position, the underlying conflict among the various contending political forces has not been resolved. As a result, there is a polarization of these forces, highlighted by the growing influence of the more aggressive and better-organized radical groups at the expense of moderates.

Dissension is reported within the military over the government's drift to the left and over the movement's control of the armed forces. Disgruntlement, however, is confined to the lower military echelons, who resent the politically motivated promotions of movement members as well as increased politicization of the military. Regular officers have not yet recovered from the shock of Spinola's resignation, and lack the organization to challenge openly the movement.

The Communist Party, too, is concerned over the impatience of young officers in the movement for radical change. Party leaders apparently envision a dangerous situation emerging when it becomes apparent to the people that their expectations for economic growth and social improvement cannot be met. The Communists reportedly favor a slower and more methodical road to power. They also realize that they could not win the elections in March by themselves and favor an electoral coalition with the Socialists. This strategy could be called into question, however, at the party congress called for October 20, because some party activists reportedly favor a concerted effort to press the advantage now that events appear to favor the Communists.

25X1

CYPRUS: POLITICAL DELAYS

Diplomatic efforts to move toward a negotiated settlement of the Cyprus problem were again overshadowed this week by political developments in Athens, Ankara, and Nicosia. Political activity in Athens intensified as the caretaker government of Prime Minister Karamanlis laid the groundwork for the elections to be held on November 17. In Ankara, opposition leader Demirel failed to organize a new coalition, sending the governmental stalemate into its third week. In Nicosia, Acting President Clerides withdrew his threat to resign and resumed the talks he had been conducting with Turkish Cypriot leader Denktash. No real progress toward a political settlement is likely until there are new governments in Greece and Turkey.

Greece: Government Resigns

In a routine formality designed to let cabinet ministers campaign, the Greek cabinet resigned this week to clear the decks for a caretaker government that will conduct the parliamentary election on November 17. Prime Minister Karamanlis and five other ministers, including Foreign Minister Mavros, will remain in the interim cabinet.

The principal parties in the election are Mavros' Center Union and the New Democracy Party headed by Karamanlis, who is still riding the crest of popular support generated by the recent return to civilian rule. Two moderately leftist parties--the New Political Forces and the Democratic Socialist Union--have decided that they will align themselves with the Center Union for the election.

The leftist "Democratic Defense," which was active in resistance efforts against the junta, has announced its support of Andreas Papandreou. Papandreou has been denouncing the election as an "electoral coup" deliberately designed to deprive the left of enough time to organize an effective campaign. On the far left, the two feuding Communist parties and the former Coimnunist-front United Democratic Left have rallied their electoral efforts in an uneasy alliance called the "United Left." The United



Mavros and Karamanlis
Election opponents

Democratic Left received 11 percent of the votes in the last elections in 1964.

On the extreme right, the newly formed National Democratic Union led by former minister of defense Petros Garoufalias is expected to appeal to royalists, businessmen, civil servants appointed by the juntas and some members of the armed forces. The new party, although allegedly royalist, has so far avoided taking a stand on a restoration of the monarchy.

25X1

US defense attache in Athens notes that Karamanlis' recent suspension of officers who represented the hard core of Major General Ioannidis' power base in the army has done much

to restore the chain of command and make the army more responsive to the government.

Nevertheless, the army has been involved in politics too long to be counted out altogether. Many officers believe that politicians are unable to give Greece the stability they feel is necessary to avoid the threat of communism and anarchy. Should they perceive that Karamanlis is letting the left get out of hand, the army could be expected to intervene again. Over the longer term, however, a stable and effective right-of-center government under Karamanlis could lessen the threat of army intervention.

Turkey: Still No Government

Following Justice Party leader Demirel's failure to form a right-of-center coalition, President Koruturk called political and parliamentary leaders together this week in an effort to reach



President Koruturk

agreement on a nonpartisan government of "national unity." There was no official announcement of the results of the meeting, but the comments of party leaders indicate that Koruturk's effort was unsuccessful.

The President may make further efforts to form a broadly based coalition, but it seems likely that he will again turn to Prime Minister Ecevit if agreement cannot be reached on a nonpartisan government to lead the country into elections. If given the nod, Ecevit may try again to form a coalition with the conservative Democratic Party.

Cyprus: Talks Resume

25X1

Acting Cypriot President Clerides announced his decision not to resign following Archbishop Makarios' public statement last week in which he reaffirmed his support of Clerides and urged Greek Cypriots to assist the acting president in his "difficult and complex task." Makarios also called for an end to mass rallies by his own supporters and to speculation about his return to the island. The Archbishop said he would decide for himself the timing of his return after the forthcoming discussion of the Cyprus issue at the UN.

With his position and authority clarified, Clerides resumed his talks on October 7 with Turkish Cypriot leader Denktash on the exchange of prisoners and related issues. The two men reportedly resolved the "practical difficulties" involved in the exchange, which was suspended on September 26 after 1,946 of 5,298 prisoners and detainees had been released. The two community leaders also had a private exchange of views on political issues. Their next meeting is planned for October 14 but they may meet as early as the 11th.

25X1 25X1

25X1

EC REVIEWS FARM POLICY

The EC pledged last week to undertake an "inventory" of its common agricultural policy. Bonn, which had insisted on a new look at the farm system as a condition for agreeing to an interim rise in support levels, greeted the decision with much satisfaction. UK Foreign Secretary Callaghan claimed that the promised review showed the flexibility of the EC and was a good omen for "renegotiating" Britain's terms of membership. Paris was not displeased either, taking comfort from the fact that the EC Commission was to carry out the stocktaking, since this would tend to assure that the basic principles of the policy, which benefit France, would be left intact.

The US mission in Brussels notes that formidable obstacles remain to early, thorough-going reform. In the longer run, though, increasing discontent with the present system and the slowly diminishing weight of the farm vote in some member states may bring about significant alterations. The commission's proposals are due next February, but it is open to question whether these will go beyond the stocktaking and attempt to cope with the difficult political choices facing the Nine. The radical suggestions the commission made in 1972 got nowhere.

The community's present farm system reflects three basic principles: preference for EC over imported products; common prices and free movement of goods within the community; and common responsibility for financing. The program is the EC's most integrated, both in theory and in fact, and its disarray in recent years has aroused concern that the EC's "cement" is becoming unstuck. Nevertheless, resistance to any structural changes in the policy has been strong.

The system promotes price stability by providing subsidies and other inducements, but these have perpetuated inefficient farming practices and insulated European farmers from fluctuations of the world market. High internal prices have enabled governments to subsidize the farmers by direct transfers from urban consumers to rural producers without the payments having to show up in national budgets. The transfers not only constitute a welfare system for poor farmers

but also reward politically important big farmers. Although the support schemes differ according to product, high prices in the important grain and dairy sectors—at least until recent years when world market prices have climbed above EC levels—are maintained by levies on imports and subsidies to exports.

External complaints about the farm policy have always pointed to its protection of high-priced EC products. From an international point of view, the insulation from external markets may be just as objectionable when it serves, as today, to maintain community prices on significant products at an artificially low level. This presumably prevents the EC from acting to influence lower world prices and restrains EC production that would otherwise be available to meet world shortages.

The growing internal complaints about the policy reflect a conviction that it just does not work. For example:

- Exchange-rate changes have made a mockery of the common pricing system.
- Prices set for individual products do not take into sufficient account such inter-relationships as that between grains and livestock, which can make the policy unworkable for a particular sector.
- Miscalculations lead to unmanageable surpluses such as the "beef mountain."
- The income of small farmers has not been maintained at a par with that of industrial workers, which was a fundamental aim of the policy.
- Consumers have borne the brunt of the high prices except for the last two years, when the system preserved EC prices under world levels.
- Germany and Britain, the main importing countries, claim they carry a disproportionate load.



French farmers block railroad in price protest

The task before the commission is not an enviable one, given the advantages that some of the EC member states—and the politically important groups and vested interests within them—derive from the present system. Lower support prices within the existing structure is one possible revision, but this step would face opposition from the farmers, who are already caught by the inflationary squeeze. Some earlier commission proposals to streamline the program are still on the table, but such patchwork would involve further administrative complications in an already often bewildering system.

A different approach would be simply to return many farm problems to the member states for solution, something that Germany, despite its recent indignation over "national measures," has implied it might favor. This, however, would attack one of the foundations of present policy—common financing—and would be resisted by the current beneficiaries—the French, Dutch, Danes, and Irish. A return to "market principles" would also be opposed by the major beneficiaries, and would in addition run against the deep European dislike for wide price fluctuations and traditional support for managed economies.

One of the more widely discussed possibilities for fundamental change is a deficiency-

payment scheme, which substitutes direct payments to farmers for consumer-borne market prices and is basically the support system used by the British before 1972. Unfortunately, such a scheme would entail very high—and visible—budgetary expenditures if the prices that guided the deficiency payments were set substantially above market levels. Basic structural reform that would alter the pattern of European farming is viewed by some experts as the only way of satisfactorily solving the EC's agricultural problems. The rapid exodus from the farms is already accomplishing a sort of structural change, but when former commissioner Mansholt proposed to encourage this process by a plan of income supplements to induce inefficient farmers to leave the land, his ideas ran up against the inertia fostered by the present system.

The member states hardly seem ready for radical reform propositions, and at this point the US mission feels it is useless to try to predict what sort of package the commission may come up with. The French are probably not being merely self-serving when they point out that, in the final analysis, a thorough review of the community's farm system can only be part of an overall program of economic and monetary measures.

25X1 25X1

25X1

EAST GERMANY: SILVER ANNIVERSARY

The celebration of East Germany's 25th anniversary this week was a well-orchestrated demonstration of Pankow's close ties to the Kremlin.

Party chief Erich Honecker and the other East German leaders missed no opportunity to praise Moscow and to reiterate that East Germany is "forever united with the Soviet Union." Indeed, statements that Pankow's "spectacular" achievements would be unimaginable without the fraternal alliance with Moscow were the principal theme of the celebration. East German speakers went so far as to attribute the international recognition of their country to Soviet sponsorship.

The guests of honor—Brezhnev, Foreign Minister Gromyko, and Defense Minister Grechko—were greeted everywhere by massive crowds shouting "long live Soviet-German friendship." Brezhnev was awarded the order of Karl Marx—the GDR's highest honor. The inclusion of Gromyko and Grechko in the Soviet delegation underscores the military and strategic importance that Moscow attaches to East Germany—and indeed to all the northern tier countries.

The public demonstrations of fealty to Moscow and the separation from West Germany that they implied were backed up by the adoption of a revised constitution. The new law abandons the concept of a single German nation and the possibility of eventual reunification, and instead emphasizes the country's solidarity with the socialist states, particularly the Soviet Union.

The determination of the East German regime to maintain a strong defense capability was emphasized by a massive military parade in East Berlin featuring some 5,000 goose-stepping troops, and an impressive display of the country's latest tank and missile hardware. This show of force drew a quick protest from the Western allies for its violation of Berlin's de-militarized status.

In addressing the future, Honecker gave East German youth a new opportunity to help in shaping the national destiny. He revealed that mem-

bers of the Free Democratic Youth will be sent to the Soviet Union to meet Pankow's commitment to construct a 550-kilometer section of the gas pipeline that will extend from the Urals to the western border of the USSR.

Brezhnev's Speech

Although Brezhnev's anniversary speech emphasized the durability of Soviet support for Pankow, he also stressed that good relations with West Germany were an important factor in detente. Brezhnev said he was pleased that West German Chancellor Schmidt was visiting Moscow later this month and cited Schmidt's pledge to continue Brandt's Ostpolitik.

On Berlin, Brezhnev appeared to be calling for diplomatic stability. He emphasized how important the Quadripartite Berlin Agreement was to relations between Moscow and Bonn, but only mildly and indirectly chided West Germany for its recent establishment of a federal environmental office in West Berlin. The net effect of Brezhnev's remarks on Germany and Berlin was to make clear that East German foot-dragging will not alter the direction of Soviet policy toward Bonn.

On other issues, Brezhnev routinely restated Moscow's interest in agreements on strategic arms and European force limitations, but provided no specifics. He recited the gamut of other Soviet arms control offers, including Moscow's propagandistic proposal for the withdrawal of nuclear-armed ships from the Mediterranean. Brezhnev also called for progress in the European security and cooperation talks in Geneva, but he did not assign any particular urgency to their conclusion and gave no hint of Soviet flexibility.

Although Brezhnev chastized China's Maoist leaders, his remarks were essentially conciliatory. He stressed Moscow's continued interest in normalizing relations, but did hold out the hope that the Chinese people "themselves" would eventually turn out their Maoist leaders. [redacted]

25X1

25X1

25X1



The Shah and Empress

IRAN: REACHING OUT

The Shah, whose leadership ambitions extend well beyond the Persian Gulf region, on October 4 concluded a two-week trip to five far-flung Indian Ocean littoral states. He appears to have succeeded in projecting a strong leader image by underlining to host governments his intention to have an important voice in Indian Ocean affairs and by drawing attention to his various long-range proposals for the area.

In statements made during visits to Singapore, Indonesia, Australia, New Zealand, and India, the Shah touched repeatedly on three subjects--big power competition in the Indian Ocean, area security, and economic cooperation. He came out strongly for a long-standing proposal by Sri Lanka to have the Indian Ocean declared a "zone of peace." The Shah, in turn, received some pledges of support for his own proposal that the UN declare the "Middle East" a nuclear-weapons-free zone.

In addition, the Shah urged greater cooperation in regional security as a necessary first step

toward the elimination of the presence of non-littoral powers. He also called for the eventual development of an area economic union, beginning with Iran and its South Asian neighbors. In discussing his proposals, the Iranian leader avoided specifics, although he did say that an economic "understanding" would lead "naturally" to a "political arrangement."

For the most part, host governments responded much as the Shah had hoped. Receptions were warm, trade and cultural agreements were signed, and general statements of support for closer economic and security cooperation were forthcoming. Apparently no credit agreements were signed, although follow-up discussions on trade and projects could lead to some Iranian loans.

In the numerous interviews he gave, the Shah tried not to become embroiled in the controversy over the presence of US and Soviet naval forces in the Indian Ocean. He made clear, however, that he differs with those littoral states that see the expansion of US facilities on Diego Garcia as provocative and likely to lead to Soviet countermeasures. He reiterated his view that US activities balance the Soviet presence and are a stabilizing influence. In an effort to soften his differences with some of his hosts, notably India, the Shah took the line that area security was the primary responsibility of littoral states. He spoke in favor of limiting the great powers' rivalry in the Indian Ocean and of their eventual withdrawal—a development he clearly does not expect soon.

Both the Shah and the Indians had good reasons for not allowing their divergent views on Diego Garcia to mar the Iranian ruler's sojourn, which was in return for Prime Minister Gandhi's visit to Tehran last May. New Delhi's cooperation is essential to the Shah's scheme for closer cooperation among Indian Ocean states, and Mrs. Gandhi's government is anxious to preserve the favorable terms on which it obtains oil from Iran, the primary source of India's oil imports. Discussions during the Shah's stay focused on economic cooperation, with the final communique noting progress on joint projects in iron ore, alumina, and shipping.

ETHIOPIA: RIFTS IN THE MILITARY

Early this week, the moderate majority of the ruling Armed Forces Coordinating Committee cracked down on its military opponents. The move followed several weeks of growing factional strife within the committee ...at ended the common front the military had exhibited in public since it began its revolt last February.

On October 7, the committee sent loyal troops to arrest radical dissidents in the army engineer and aviation battalions in Addis Ababa. A skirmish broke out in which five men were killed and seven wounded. Addis Ababa radio later announced that other members of the two units had been arrested for attempting to "disrupt the progress of the revolution." Until this incident, the military had managed to avoid internecine conflict despite sharpening differences within its ranks.

In the coming week, the coordinating committee reportedly intends to arrest some 50 additional military and civilian opponents. The chance of major fighting between military units hinges mainly on the reaction of a dissident minority in the First Division in Addis Ababa, the most potent opposition to the committee, and on the dissidents' ability to pick up support from other opponents of the committee. On October 8, the leaders of the dissidents resigned, and one was reportedly placed under house arrest.

The moderates believe that their forces now outnumber First Division dissidents in the capital and are strong enough to make a convincing show of strength. The Addis Ababa - based Fourth Division, which generally supports the committee, has been reinforced by troops and artillery from outlying areas.

The coordinating committee remains divided over such issues as the future orientation, composition, and leadership of the Ethiopian government. Disputes generated by the special interests of various military units have contributed to the rift. A constant shifting of al-

liances, both within and between the units, makes the opposing camps difficult to define.

The moderate majority on the committee favors continuation of military rule. Although they are interested in far-reaching changes, they want to move cautiously and to gain broad civilian support without resorting to coercion. The moderates apparently have not reached a final decision on Haile Selassie's fate, but probably prefer to exile him to the countryside, perhaps after trying him for corruption.

The radicals on the committee want an immediate return to civilian rule, and a reshaping of Ethiopian society along socialist lines, together with abolition of the monarchy and harsh punishment for Haile Selassie and the imprisoned aristocrats. Some of the radicals have called for a "peoples republic." At a minimum, the radicals want students, workers, and other civilians to have an important role in the government.

The radicals have been vocal in their demands, and have shown a potential for trouble-making. By themselves, however, the radicals would be no match for the moderates in a showdown. The coordinating committee probably moved first against the engineering and army aviation battalions as a warning to dissidents in the First Division and in the air force, which also contains large numbers of radicals.

The First Division's split with the committee apparently stems mainly from its desire to maintain its separate identity and special perquisites. The division, while serving as the imperial bodyguard, received choice assignments, special allowances, and the best equipment. When the coordinating committee decided to integrate the division into the regular army, the dissidents strongly objected to the change. The First Division dissidents also favor an immediate return to civilian government, but they want a cabinet of technicians closely guided by the military. A similar arrangement prevailed just before Haile Selassie was deposed.

25X1
25X1

KENYA: PARLIAMENTARY ELECTIONS

Kenyans go to the polls on October 14—the second time since independence in 1963—to elect their National Assembly. The outcome will probably not presage any shift in government policies, but may give some clue as to who will ultimately succeed President Jomo Kenyatta, who is in his eighties and is soon to be sworn in for his third five-year term.

Kenyatta's Kenya African National Union is the only party on the ballot—opposition parties were banned five years ago—but the voters will have a choice: about 750 National Union candidates have been nominated for the 158 elective assembly seats. Observers predict that as many as half of the incumbent legislators may lose their seats as the result of discontent over the failure of the Kenyatta government to improve living standards or to deal effectively with charges of tribal favoritism and corruption.

The indications are that the election on Monday may dim the future prospects of a number of politicians from Kenyatta's southern branch of the Kikuyu tribe—the country's largest. Several of the southern Kikuyus have gained influence and wealth as a result of their roles in the National Union but few of them [redacted]

[redacted] have caught the public fancy. Likely to fall by the political wayside as a result of the election is Foreign Minister Mungai, a relative of Kenyatta who has long been considered a possible successor to the President. Mungai appears to be losing the contest for his seat in the legislature; his major opponent is getting financial support from Mungai's rivals for the succession. For his part, Mungai is putting the heat on foreign diplomats and businessmen for campaign funds. Attorney General Njonjo, another southern Kikuyu, is also reported to be in danger of losing his seat.

Politicians from the northern branch of the Kikuyu—long distrusted by Kenyatta—may be the beneficiaries of the election. The northerners are more likely to be supported by persons from other tribes than are southern Kikuyus. Members of the Luo, Kenya's second largest tribe, are especially apt to vote against southern Kikuyu incumbents because Kenyatta has prevented Luo



Kenyatta

leader Oginga Odinga, a long-time rival, and other prominent Luo politicians from running for the legislature. Odinga led the opposition party until it was banned in 1969. Mwai Kibaki, the minister of finance and economic planning, is a northern Kikuyu of national leadership caliber who appears likely to win re-election despite the disadvantage of being associated with an unpopular tax program.

Vice President Daniel arap Moi's future may also be enhanced by the election results. Moi, from a minor tribe, was put in the post by Kenyatta in 1967, probably because he offered no threat to southern Kikuyu dominance. Since then, Moi's stature has grown and he is campaigning actively. Unopposed for his own legislative seat, Moi has been acting as spokesman for the party leadership and campaigning for candidates likely to support him in the future.

After the election, Kenyatta must again name a vice president, and Moi's reappointment appears likely. Moi would then be in a strong position to replace Kenyatta should the President die or become incapacitated in office. Kenya's constitution provides that the vice president becomes acting president for 90 days, during which time an election for a new president is held.

25X1

SOVIET INDIAN OCEAN FORCE CHANGE

The first flag-showing visit in the Indian Ocean has been scheduled for the helicopter ship Leningrad. Beginning October 14, the Leningrad, its escorting destroyer, and a replenishment ship will put into Port Louis—a commercial port on the island of Mauritius. Commercial and naval ships of all nations visit this port frequently, and US and Soviet naval ships visited here simultaneously last December.

The Leningrad group spent a week—from September 27 to October 4—close to the port of Berbera in Somalia. The ships did not dock, probably because of the narrow entrance to the port, but helicopters from the Leningrad shuttled back and forth. Before the Berbera layover, the Leningrad was replenished from Soviet auxiliaries at an anchorage 20 nautical miles from the port of Aderi.

Other Soviet ships currently in the Indian Ocean include a gun-armed destroyer with an auxiliary ship, which completed a visit to Mombasa, Kenya, on October 6, and a guided-missile destroyer that visited Colombo, Sri Lanka, from October 3 to 9. The destroyer visiting Colombo is a newly commissioned Kresta II - class unit that is probably transferring from the Baltic Fleet to the Pacific Fleet.

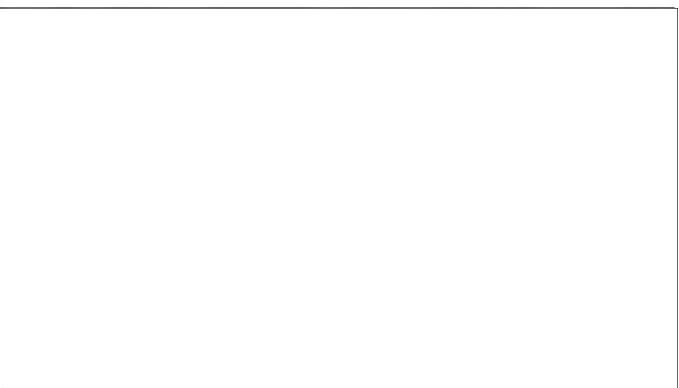
The Leningrad group should leave the Indian Ocean this month, having spent more time away from home port than ever before. Once the Leningrad and its escorting destroyer leave, and the Kresta II moves on, it will be the first time in a year that the Soviet naval force in the Indian Ocean will be reduced to its basic contingent. This consists of a gun-armed destroyer, two escort ships, two fleet minesweepers, a landing ship, and a diesel torpedo-attack submarine. Ten minesweepers still working in the Strait of Gubal are not likely to leave before the end of November.

IRAQ: OFFENSIVE BOGS DOWN

Baghdad's latest efforts to achieve a military solution to the Kurdish problem have met only limited success. Recent Kurdish successes, morale problems among Iraqi troops, and Iranian support for the Kurds have denied the Iraqis a quick military victory. Baghdad nevertheless shows no signs of changing its war policy, and continues to be willing to absorb large losses.

In their first successful military operation since they captured two Kurdish towns in late August, the Iraqis occupied a strategic mountain overlooking a Kurdish supply route in north-eastern Iraq. This drive, a two-pronged advance, is aimed at cutting Kurdish supply lines and dividing the rebel forces. Baghdad's forces have suffered heavy casualties within the past two weeks in repeated efforts to capture two strategic positions covering the road to the Kurds' headquarters. The victory could well be pyrrhic, however, as discontent grows within the army's ranks.

25X1



Tehran, for its part, continues to provide mortars, anti-tank weapons, and ammunition to the Kurdish forces. In response to the recent heavy fighting, the Shah has increased this aid and has ordered an additional artillery battery to the border for use against Iraqi forces.

25X1

25X1

25X1

SOUTH VIETNAM: SOME CHANGES--MAYBE

The level and intensity of military activity continued at a generally low rate throughout South Vietnam during the week. The major exceptions were the loss of the last outlying government outpost in Kontum Province and a continuing battle for high-ground positions in a few of the northern coastal provinces, particularly south of Hue. Much of Saigon's attention was focused on its efforts to deal with the current rise in anti-government political agitation.

Thieu's address to the nation on October 1 has done little to dampen the charges being made by the Catholic and Buddhist oppositionists who continue to demonstrate against corruption, the poor state of the economy, and tight controls on the press. In fact, some of Thieu's close advisers are dissatisfied with the way the President rebutted the opposition charges in his speech. Specifically, some of his aides think Thieu treated the corruption issue too lightly and left people confused with his call for a popular vote of confidence.

Prime Minister Khiem and other members of Thieu's entourage are now encouraging the President to make some changes in his cabinet and presidential staff as a way of dampening criticism of the government and improving its performance, especially in the economic area.

A specific objective of Khiem's proposal appears to be the removal of Information Minister Hoang Duc Nha, Thieu's close confidant and relative. Khiem and others, who have long been jealous of Nha's easy and independent access to Thieu, hold Nha responsible for urging unwise and ill-timed courses of action on the President. They are charging Nha with mishandling complaints about government censorship and hope to persuade Thieu that Nha's removal would eliminate a major rallying point for opposition elements.

Talk of cabinet changes crops up about as regularly as Vietnam's monsoons, much of it stemming from bureaucratic infighting and jockeying for presidential favor and influence. In the past, Thieu has usually taken several weeks to



Nha

A political thorn

decide what, if any, changes he wants. While he may be persuaded that something more than a cosmetic change is now in order for the cabinet, Thieu will be reluctant to remove or significantly diminish the influence of Nha. Thieu uses Nha principally for the reasons that make the aide unpopular--to inform the President of what other members of the palace guard are doing and thinking.

25X1

CAMBODIA: SIHANOUK IN THE SHADOWS

Sihanouk's influence within the insurgent movement has diminished greatly during the past year. Last November, a number of key portfolios in his Peking-based Royal Government of National Union were transferred to the Khmer Communists in Cambodia, and this now appears to have been a key factor in the Prince's declining position. Sihanouk tried to put the best face on

25X1

the transfer by claiming that it was done at his initiative to remove the "exile" stigma from his government and to improve its chances for replacing Phnom Penh's delegation at the 28th UN General Assembly.

[redacted]
the transfer of portfolios was a maneuver that backfired on Sihanouk and led to a significant slippage of his position.

Sihanouk's initial proposal was for the transfer of key ministers, not just their portfolios, to the "liberated zone." Many of these ministers were pro-Sihanouk nationalists, and Sihanouk hoped that their presence in Cambodia would help expand his influence at the Communists' expense. The Khmer Communists responded, however, by insisting on the transfer of the portfolios to Communists, and Sihanouk was unable to resist since this would have exposed his ulterior motives.

Following this setback, Sihanouk's relations with the Khmer Communists became cold and perfunctory. Sihanouk's unilateral call for talks with the US when he visited Laos in March 1974 strained relations even further. Sihanouk maintained a facade of camaraderie during Khieu Samphan's visits to Peking in April and May, but there was considerable behind-the-scenes friction. Sihanouk was particularly incensed when Samphan refused to allow him to make a visit to Cambodia in 1974, but then invited North Vietnamese officials to the "liberated zone." Sihanouk reportedly is now no longer attending Politburo meetings in Peking, and statements issued under the Prince's name are merely forwarded to him for pro forma approval.

Foreign visitors in Peking in late August found the Prince tense and depressed. Sihanouk deprecated his own ability to influence events in Cambodia and claimed that he had little remaining authority. In discussing negotiations, the Prince said merely that the Khmer Communists were committed to a total victory and do not wish to negotiate.

Communist media coverage of "deputy prime minister" Khieu Samphan is now greater than ever, while the coverage of Sihanouk is

25X1

25X1

largely limited to perfunctory statements issued on special occasions. Last week, for example, Samphan issued four unprecedented "appeals" to elements in Phnom Penh and made the first authoritative statement from the insurgent side on the representation battle in the UN. Communist radio broadcasts on October 8 belatedly carried Sihanouk's comments on the UN situation in which the Prince himself highlighted Samphan's increased stature and announced that for all practical purposes, Samphan had assumed the role of "prime minister." It was the first time since July that Communist media had carried a major Sihanouk statement or interview.

All this does not mean that the Communists are preparing to jettison Sihanouk. He gives the insurgency a legitimacy, both inside and outside Cambodia, that it would not have otherwise. Discarding him at this juncture would result in further internal divisions that the Communists cannot afford. It does mean, however, that Sihanouk is becoming less and less an equal partner with the Communists. Now more than ever, his political future appears to rest on the hope of a negotiated settlement that would give him new vantage ground to rebuild his political position.

25X1 25X1

THAILAND: NEW GOVERNMENT COMING

On October 5, the interim national assembly by an overwhelming majority approved the draft constitution that has been in the works for close to a year. The act clears the way for the establishment of a constitutional government, a slow process that has been under way since the fall of the Thanom military regime a year ago.

The King signed the draft constitution despite his reservations about what he sees as an excessively political role mapped out for the monarchy. The document was promulgated on October 7. Bangkok has remained peaceful, despite the threat of demonstrations by student militants unhappy with several provisions of the constitution. A general election is set for February 1. It will be Thailand's first election in five years, and the first since 1946 to determine a new government.

25X1

25X1

JAPAN: NUCLEAR ALLEGATIONS

Allegations that visiting US naval vessels carry nuclear weapons have created a political tempest in Tokyo that has embarrassed the Tanaka government. The left is using the issue to revive its sputtering campaign against the US-Japan security treaty as well as to discredit the government as President Ford's mid-November visit approaches.

The uproar stems from testimony before a US congressional committee last month by a retired US navy admiral who strongly suggested that nuclear weapons are carried aboard the US aircraft carrier Midway, which homeports in Yokosuka, and on other navy vessels that visit Japan. A subsequent statement by the admiral denying any specific knowledge was over-



Tanaka

shadowed by an article in the *New York Times* of October 8 quoting a US defense official to the effect that:

- It is "no secret" that nuclear-armed US ships visit Japan.
- The Japanese government is aware of this.

Tokyo quickly and categorically denied the claims in the *Times* article, but Prime Minister Tanaka still faces serious controversy in the Diet on the nuclear weapons issue, beginning in committee sessions next week. The opposition parties allege violations of bilateral understandings requiring "prior consultation" when nuclear weapons are brought to Japan, and they will press the government to categorically deny that such weapons are present.

Japanese officials are also worried about increased demonstrations and local pressures against US bases, particularly at Yokosuka. Several prefectural governors have asked Tanaka to end further port calls by US naval vessels until satisfactory clarification is received. Tokyo, feeling the pressure, has asked the US for a public statement that would help the government defend its position and has also asked the US to shorten the coming visit of the aircraft carrier Midway.

Despite the extraordinary press coverage so far, the media at this point is essentially waiting for a definitive explanation from the Japanese and US governments. If Tokyo follows up any US statement with an unequivocal denial of the charges, the issue may well subside. If the Japanese government is unwilling to make a definite statement, however, the domestic controversy could deepen and eventually strain political and security relations between the US and Japan.

25X1
25X1

CHINA: INDUSTRIAL SHORTCOMINGS

The growth rate of China's iron and steel industry will almost certainly decline sharply this year. Steel production, in fact, may not exceed the 1973 level of 26 million tons.

Prior to this year, China's steel production had made impressive gains. Recovery from the disruptions caused by the Cultural Revolution in 1967-68 accounted for part of the growth, but much of the advance was due to the completion of a number of small-capital projects such as basic oxygen steel furnaces and to the introduction of automated processes. In addition, Peking stepped up its program for building small-scale iron and steel plants; by 1973, these small plants were producing 15 percent of the country's crude steel.

The rate of advance could not be sustained, however. The small-scale plant program was over-stimulated by political zeal, resulting in inefficiency and poor quality production. Investment that should have been distributed throughout the industry was concentrated too heavily in the development of crude steel capacity. Moreover, higher grade iron ore deposits have been depleted, and Peking has failed to allocate sufficient resources to new mining techniques and to facilities for improving ore quality. The development of pig iron production capacity has also been neglected.

These basic imbalances within the industry reportedly have been aggravated by strikes and slowdowns caused by the anti-Confucius campaign as well as by higher prices for raw materials. Perhaps more importantly, the steel industry as well as most other industries, is now facing a severe shortage of coal, which accounts for 80 percent of all energy used in China. Coal mine cadres have been told in confidential briefings that during the first half of this year, coal output in China either fell short of plan by 8.35 million tons or decreased by that amount compared with the same period of 1973--reports from China can be interpreted either way. In either case, the

shortage is more than can be balanced by savings campaigns in industry or by further curbs on home use.

The slowdown in both the coal and iron-and-steel industries is likely to persist for several years. While the difficulties caused by the anti-Confucius campaign will probably be short-lived, other problems will not be easily solved. There is little promise of regaining momentum in the steel industry's small-scale plant program because of the inherent inefficiencies of this type of plant. Limited foreign exchange and rising prices will severely restrict the relief that might be gained by importing raw materials and finished steel products. Additional injections of capital into the sectors of the industry that boosted output in recent years would not provide a solution either, since what is needed now is a redirection of investment into the weaker sectors of not only steel but related industries, including coal.

Despite the unmistakable signs of an approaching crisis, there have been no visible indications that additional large investments are being directed to the coal industry. It is possible that Peking has stepped up such investment without public announcement, but it is unlikely that any major effort would have escaped notice. In any case, it requires up to seven years to build an underground mine of the type favored by the Chinese.

Shortages of coal and steel over the next several years will hamper overall industrial growth. For example, coal shortages are resulting in a curtailment of textile production, a major foreign-exchange earner, as well as forcing electric power plants to convert from coal to oil. Over the longer term, Peking will have to import equipment and technology to modernize its steel and related industries. This will be expensive and will require considerable time and careful planning, but it is a course that is in tune with China's goal of economic self-sufficiency.

25X1

25X1

25X1

Page Denied



President Peron

ARGENTINA: APPEALING FOR UNITY

President Peron made a strong pitch this week for political unity while promising severe measures to deal with rampant terrorism. Most major sectors of Argentine society support her call to eradicate violence, but opposition leaders are increasingly skeptical about many government policies to this end.

Leaders of various political parties have grown concerned over Mrs. Peron's failure to keep them abreast of major decisions and have been pressing for a private meeting with her. Last week, they issued a public declaration calling for a renewal of the dialogue started by the late president Juan Peron. Their criticism was muted, however, because Mrs. Peron, in a pre-emptive move, had already scheduled a broadly based conference with representatives from most parties, the congress, the church, the military and business.

Although those in attendance apparently agreed to a joint statement rejecting all types of terrorist activity, the conclave probably did little to resolve underlying disagreements. Major points of dispute center on the government's sanction of right-wing death squads, the new penal reform law, official use of the media for the Peronists' own political purposes, and the closing of the national university. The politicians did not expect much from the national unity meeting. Their attitude was reflected by the statement of a Radical Party member that the invitation extended to Cardinal Caggiano, the octogenarian prelate of the Argentine Catholic Church, was ample evidence that the meeting was a "waste of time."

Meanwhile, opposition leaders have reaffirmed their request for a separate parley with the President, and they apparently intend to judge her response as a measure of the government's

willingness to engage in serious talks. Ricardo Balbin, the key spokesman for the parties, has raised a subject that is uppermost in the minds of many of them. During a televised discussion, the Radical Party leader condemned extremism of the left and right, but he leveled his strongest criticism to date at the government's failure to curb the death squads. He was clearly referring to the notorious Argentine Anti-Communist Alliance, which reportedly operates with the tacit approval of high government officials.

Opposition leaders fear that the government's heavy-handed actions in the counter-terrorism field could pose a dangerous threat to democratic freedoms. The indiscriminate terror evoked by the quasi-official death squads could hardly be reassuring to them.

In a move probably calculated to wreck President Peron's efforts to promote a consensus, the Marxist People's Revolutionary Army had earlier proposed a truce with the government in return for legal recognition, a repeal of "repressive" legislation, and the release of all "political" prisoners. Some politicians are undoubtedly sympathetic to these demands, which seem to indicate that the petition was a well-timed psychological maneuver to cause further political dissension between the Peronists and opposition parties.

In a strongly worded speech at the multi-party meeting, President Peron stated that her government will press ahead vigorously with anti-terrorist measures. Indeed, her promise to use an "iron hand" against subversion implied a rejection of the truce proposed by the extremists.

The President concluded by praising the army effusively, as she has on previous occasions—an obvious bid to assuage the military. In recent weeks, the army has been the principal target of terrorism by leftist extremists, who hope to provoke plotting within the armed forces. A sense of frustration may be growing, but few officers see any alternative at present to supporting the Peronist government.

ECUADOR: RESOURCES MINISTER REPLACED

The new minister of natural resources, navy Captain Luis Salazar Landeta, is expected to follow a more pragmatic approach toward foreign oil companies and potential foreign investors than did his predecessor, Gustavo Jarrin. While Ecuador's overall nationalistic stance is likely to continue, the ministry under Salazar's stewardship could pursue petroleum policies more in line with the attitudes of President Rodriguez and the conservative elements of the government.

Last week, Jarrin was dismissed from the ministerial post and named naval attache to London. He had recently been elected president of the Organization of Petroleum Exporting Countries for a term ending in December. It is uncertain whether Jarrin will be forced to resign this post, but in any case, Ecuador will probably retain control of the OPEC presidency at least until December.

Jarrin has long been at odds with President Rodriguez over Ecuador's radical petroleum policy. An ultra-nationalist, he has been a major influence on the government's heavy-handed treatment of foreign oil concerns in Ecuador. His demands for higher revenues and early nationalization of the oil companies have discouraged potential foreign investors. Furthermore, at the recent special OPEC session in Vienna, Jarrin emerged as a leading spokesman for higher oil prices and bitterly denounced the policies of the oil-consuming nations, particularly the US. His anti-American statements and his efforts to appoint radicals to ministry posts have alienated moderate officials as well as President Rodriguez.

The new minister is not well known, but apparently he is a political moderate who has the trust and confidence of the President. At one time, Salazar served as a special military adviser to Rodriguez. Although he is not expected to bring about major changes in Ecuador's petroleum policy, government officials believe he will take a less antagonistic approach to foreign oil concessionaries.

25X1 25X1

25X1 25X1

URUGUAY: NEW LEADERSHIP

Minister of Economy Alejandro Vegh, who was appointed by President Bordaberry only three months ago, has already given a new direction to national policy and bolstered the position of civilians within the government. The measures introduced thus far reflect a conservative statist philosophy and are primarily designed to free the exchange rate, maintain essential imports, and stimulate domestic investment.

Last month, Vegh and Bordaberry met with top military leaders to win support for economic initiatives. Because military officers now play an important policy role in economic affairs, their backing is essential to the success of any reform program. Vegh allegedly obtained a promise of full support after threatening to resign if his measures were not adopted.



Vegh

Since then, Vegh has instructed the central bank to free the financial exchange rate from the US dollar. This will not affect the commercial exchange rate with regard to trade, but is intended to retard capital flight and curb black market operations.

To finance this year's balance-of-payments deficit, which is expected to increase to \$125 million because of oil import costs, Vegh has decided to use Uruguay's gold reserves rather than impose import controls that would restrict the flow of capital goods essential for development. He has also lowered export taxes on wool and meat to encourage major exports through official channels. Vegh plans to stimulate domestic investment by raising the interest rate for savings and loans. The government also intends to sell treasury bonds at market-determined interest rates.

Military approval of Vegh's policies, which have received strong backing from Bordaberry, appear to have given the President new strength as a national leader. Last month, even before the economic meeting with the generals, Bordaberry, flanked by military leaders and key advisers, turned down an appeal from prominent citizens and political leaders for a renewal of party activities. He has also recently indicated that he may remain in office after his term officially ends in 1976.

Although Uruguay continues to suffer from serious economic stagnation and rampant inflation, Vegh may encourage a return of confidence if he is able to sustain his reform measures. Previous efforts to alleviate Uruguay's economic ills failed because of the inability of its leaders to formulate and pursue clearly defined stabilization policies.

25X1

PERU: THE SEVENTH YEAR BEGINS

The military government has begun its seventh year in firm control of the country, but it faces increased civilian opposition to its revolutionary programs. President Velasco's position remains strong, but health problems and an apparent inability or unwillingness to compromise as in the past may lead to a lessening of his effectiveness. Velasco is attempting to shift responsibility for the recent discontent by claiming CIA is behind the problems.

Dissension between moderates and radicals in the military has increased since Velasco forced moderate navy minister Vargas to resign last May. More so than in the past, intra-military disagreements can be expected to weaken somewhat the overall effectiveness of the regime. In addition, since the government expropriated the press in July, some civilian opponents of the regime have indicated a resolve to contest—possibly violently—the military's radical programs. Several bomb blasts in the Lima and Arequipa areas during the past month may be the start of a general anti-government terrorist campaign reportedly under consideration by middle class dissidents since the press take-over. Dissident navy officers may also be involved. Thus far, these activities have not caused serious disruptions, but this could change if these groups feel that



Velasco

Velasco's policies threaten to strike at the heart of their basic interests.

In his earthquake-delayed anniversary speech on October 9, Velasco linked domestic dissidents to an alleged international campaign against the revolution that he said "could well be" the work of a "sinister subversion and espionage machinery." Velasco never mentioned the CIA by name, but made reference to recent revelations concerning "the activities of foreign agents in Peru's sister nations." He declared that his country will "frustrate the dark intentions" of this "enemy of democracy, justice, and liberty."

Velasco's health problems could force him to step down next year. In the meantime, he will try to shore up his own position while strengthening the hand of those officers he would like to see running the country after he leaves office. Such measures include keeping officers loyal to him in all important troop commands and ensuring that radicals continue to enjoy a majority voice in top levels of government. In so doing, Velasco will have to be careful not to upset the time-honored practice of assigning key government posts on the basis of military seniority. Maneuvering along these lines is likely to increase toward the end of the year, when important retirements and reassessments are effected.

Army Chief of Staff Morales Bermudez, a moderate, is slated to become prime minister next year, and his assumption of office may exacerbate moderate-radical tensions. At this time, there is no clear successor to Velasco, although at one time the President reportedly expressed a preference for Army General Graham, a close ally and a leading radical. The succession problem will remain a hot issue among military leaders.

The coming months will witness a continuation of Peru's radically nationalist revolution. And, although internal dissension is on the upswing, the country is likely to remain under firm military tutelage for the foreseeable future.

25X1

25X1

CHILE: EXTREMISTS LOSE LEADER

Government security forces inflicted a severe defeat on the extremist Movement of the Revolutionary Left last week. Miguel Enríquez, leader of the movement and number one on the government's most-wanted list, was killed in Santiago on October 5 during a gun battle between security forces and the group—which had apparently been responsible for a daring bank robbery several days earlier. Nearly half of the hold-up loot was recovered from the house in which Enríquez died, along with a cache of weapons that included Soviet-made rifles and rocket launchers.

It is uncertain whether the bank robbery was a first step in a new extremist offensive, a propaganda ploy aimed at demonstrating that the movement was still viable, or an act of desperation on the part of a group constantly hounded by security forces.

25X1

25X1

Last month, however, the movement rejected government overtures for a secret "truce" that would have called for the group to turn in its arms and expose its penetrations of the armed forces in return for safe conducts out of the country. The group may have felt compelled to revalidate its revolutionary credentials with tangible action.



In any case, Enríquez' death has deprived the group of its most capable leader. Leadership may now devolve on his brother Edgardo, currently in exile in Paris, or on Andres Pascal Allende, the late president Allende's nephew, who reportedly took part in the bank robbery but escaped during the shootout.

25X1

Strenuous government efforts to destroy the movement have hurt the organization badly. The group seems to have a magnetic attraction for young, violence-prone leftists, however, which is likely to help it survive and remain capable of at least limited anti-government activity.

25X1

25X1

25X1